Headquarters U.S. Air Force

Integrity - Service - Excellence

Phase 1
Project Identification

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Phase I – Project Identification Overview

- **Big Picture**
- **Family Housing Master Plan**
- **Privatization Feasibility Analyses**

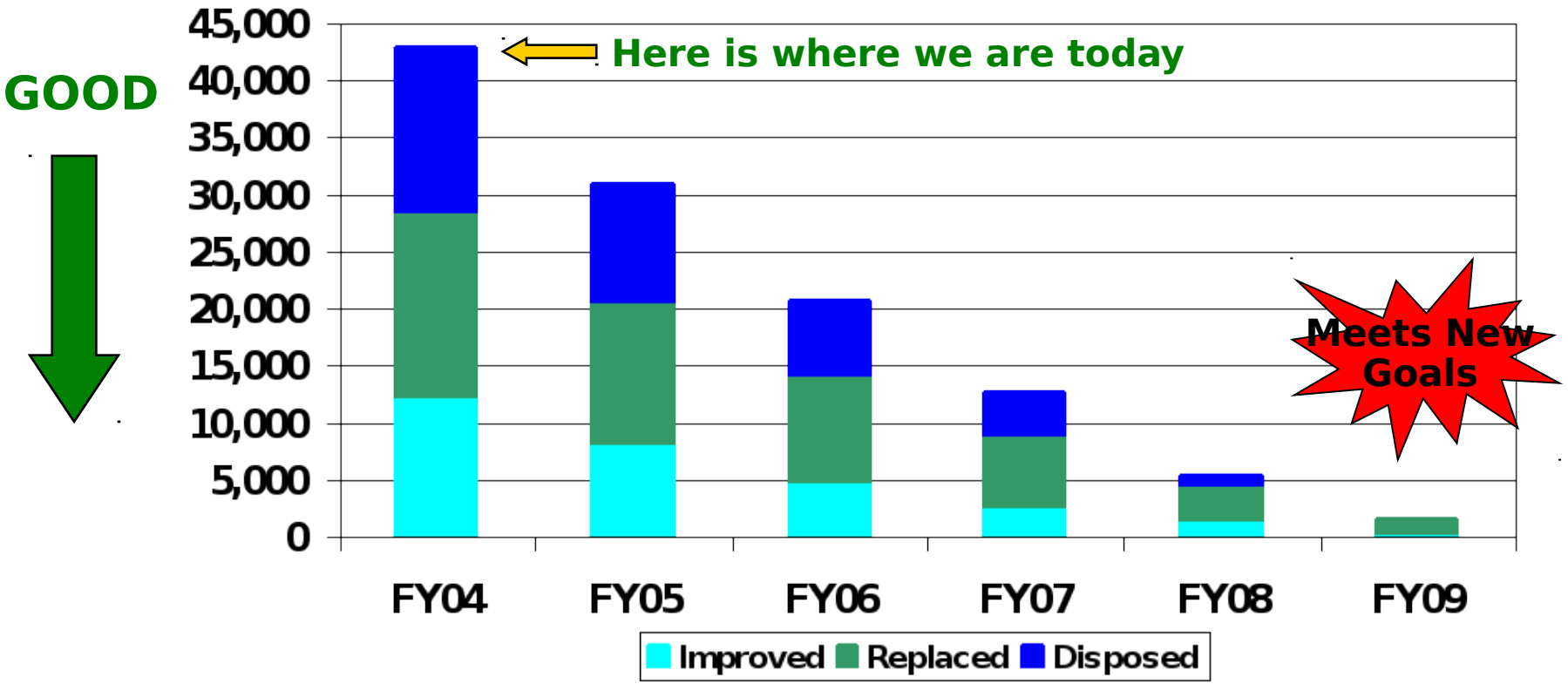
Big Picture
Strategic Planning Guidance (SPG)

- **SPG for AF based on Nov 02 SECAF – OSD(AT&L) Agreement**
- **Eliminate inadequate housing at all US bases by 2007 except 4 northern tier bases (2008)**
- **Eliminate all inadequate overseas housing by 2009**
- **Increase privatization to at least 60% of US inventory**

Note: 60% guidance is a floor not a ceiling. Air Force is committed to privatizing housing at all installations where it makes economic sense.

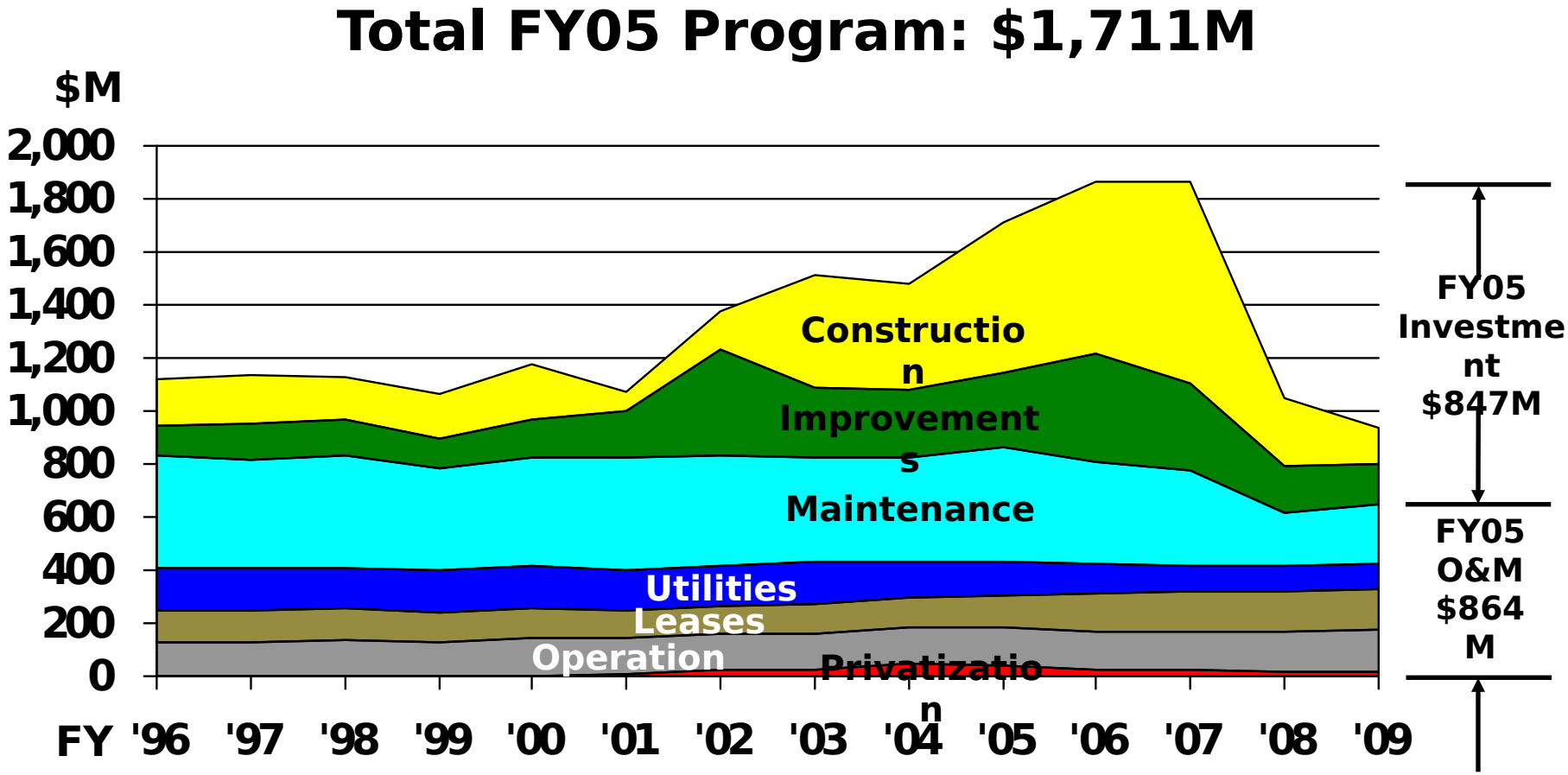
Big Picture
Total Air Force Inadequate Units

- Agreement: Eliminate inadequate housing at all bases in the US by 2007, except for 4 northern bases by 2008, and overseas bases by 2009
- Chart shows total remaining AF inadequate units at beginning of each Fiscal Year



NOTE: This programming data is based on a combination of the 2002 Family Housing Master Plan (FHMP) requirements, and approved Housing Requirements and Market Analysis (HRMA) results. HRMA results at some bases are being finalized. The 2004 FHMP will include all requirements.

Big Picture
Air Force Housing Program Size



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Family Housing Master Plan (FHMP) Planning

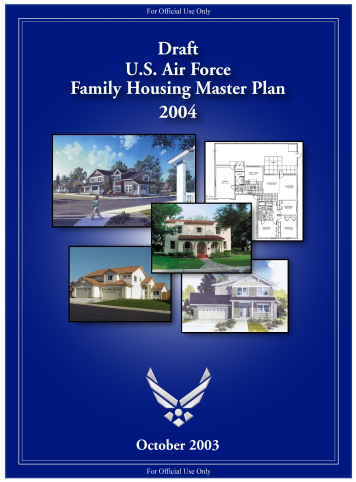
- **FHMP is the roadmap for MILCON and O&M funding**
  - **Detailed, analytical process**

- **Housing Requirements & Market Analysis (HRMA) – Determines on-base housing requirement using OSD market analysis methodology**
- **Housing Community Profile (HCP) – Independent assessment of housing condition and improvements required to meet AF standards**
- **Installation FHMP – Rollup of investment, sustainment, and operating costs; decision on privatization viability**
- **Air Force FHMP – Integrates base plans; prioritizes and**

Family Housing Master Plan

Program Re-Baselining

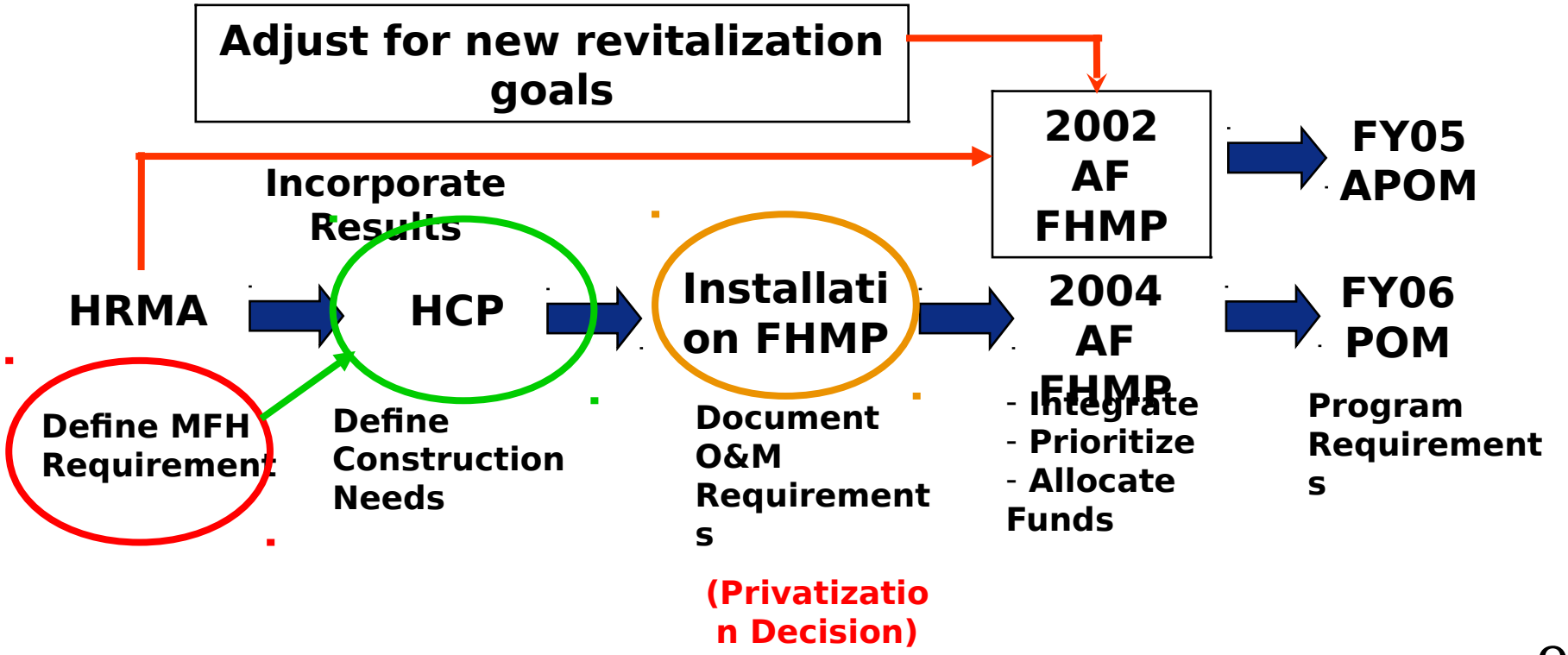
- 80 HRMA updates -- rebaseline with OSD requirements methodology
- 46 HCP updates
- 18 privatization feasibility analyses underway
- 2004 FHMP update underway



Family Housing Master Plan

How We're Getting There

- Developed a "work around" for the FY05 APOM
- Putting FHMP process back on track for FY06 POM



Family Housing Master Plan

HRMA Status/Results Update

Results by MAJ COM					
MAJ COM	Under Contract	Results Accepted	Unresolved	Results Pending	Change
11th Wing	1	1	0	0	-46%
ACC	16	15	0	1	-12%
AETC	13	10	3	0	-32%
AFMC	9	7	0	2	-27%
AFSOC	1	1	0	0	21%
AFSPC	9	6	2	1	-21%
AMC	12	12	0	0	-33%
PACAF	7	7	0	0	1%
USAFA	1	1	0	0	-66%
USAFE	11	10	0	1	-31%
Total	**80**	**70**	**5**	**5**	**-20%**

Family Housing Master Plan

HCP Tabletop Updates

- Modified HCPs to incorporate HRMA results
- Base/MAJCOM reps met with ILEH & Parsons in DC
  - Reassessed use of existing inventory to meet new requirements
  - Updated construction costs & decisions
- Updated HCP data incorporated into 2004 Installation FHMPs
- Basis for construction requirements in privatization analyses underway

Family Housing Master Plan 2004 FHMP Milestones

- Submitted Installation and AF FHMPs for 31 Oct 03 WG/CC and MAJCOM CE review
- Received MAJCOM coordination and comments 26 Nov 03
- MAJCOM comment resolution Nov-Feb 04
- Analyze future privatization project viability Nov-Feb 04
- Send adjusted FHMPs for MAJCOM/CC review 20 Feb 04 and approval
  - Will include list of additional privatization studies
- MAJCOM CC coord due; begin AS 2-digit coord 12 Mar 04
- Publish CSAF & SECAF approved FHMP and 31 Mar 04 Distribute to MAJCOMs

Family Housing Master Plan Implementation Cost

- The current projection of Draft AF Family Housing Master Plan (FHMP) requirement is $8.3B
- The six year projection (FY06-FY11) includes
  - $4.2B for Housing MILCON/Privatization
  - $4.1B for O&M
- FY06-09 requirements exceed current FYDP funding
- Need to offset program growth with more privatization cost avoidance

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Privatization Feasibility Analyses

Issues and Timing

- CSAF policy officially eliminated severability criterion
- Re-analyzing all remaining “MILCON” bases for privatization potential
  - Re-engaging: new analyses with new requirements
  - Assume FY04 construction completed/conveyed
- Feasibility analyses concurrent with FHMP review
  - Initial analyses issued for review Nov 2003
  - Still working issues to refine some analyses
  - Additional analyses in Feb-Mar 2004
- Approaching OSD about privatizing outside financial criteria

Privatization Feasibility Analyses

Methodology

- No longer using Air Force privatization predictive model
- Now using proforma analyses to screen projects
  - Based on HRMA and HCP
  - Same requirements as Installation FHMP
  - Initial screening (Nov 2003) as of beginning of FY 2005
  - Next round (Feb – Mar 2004) as of beginning of FY 2006
- Feasibility analyses follows SAF/FM guidance

Privatization Feasibility Analyses

Criteria

- **First Mortgage > Second**
- **Leverage > 3:1**
- **Privatization Life Cycle Cost < MILCON Life Cycle Cost**

Privatization Feasibility Analyses

Financial Model Assumptions

- **BAH and OOP:** Used 2003 BAH and 1 Jan 2003 Estimated Median Monthly Out of Pocket expenses.

- **Utility Cost (tenant and common area):** Followed SAF/FM guidance.
  - For tenant (gas and electric) utility allowance used the Home Energy Saver website (www.homeenergysaver.lbl.gov).
  - The tenant utility allowance includes the 10% adjustment (tenant utility allowance = tenant utility cost X 110%).
  - For common area (water, sewer and trash collection) utility costs followed OSD Life Cycle Cost Policy.

- **Operations and Maintenance Cost:** Followed SAF/FM guidance.
  - Used the *Institute of Real Estate Management (IREM) Income/Expense Analysis: Conventional Apartments*.
  - Used the Metropolitan Area Report (MAR) if one existed for the location and included more than 10 buildings in the analysis. If a MAR did not exist or did not include more than 10 buildings, contractor used the Regional Reports.

Privatization Feasibility Analyses

Financial Model Assumptions

- **Replacement Reserves:** Followed Freddie Mac and Fannie Mae underwriting guidelines, assuming $25 per unit per month.
- **Treasury Rates:** OMB Circular A94 – Appendix C.
- **Inflation Rates (construction cost, BAH and Expenses):** Followed SAF/FM guidance of 3%.
- **Vacancy Rates:** Followed SAF/FM guidance of 5%.
- **Tax Rate and Assessed Value:** From the local taxing authority at each location.
- **Construction and Permanent Loan Interest Rates:** Followed SAF/FM guidance for a project executed in CY2005. 6.5% for the construction loan and 7.38% for the permanent loan.

Privatization Feasibility Analyses

Financial Model Assumptions

- **Developer Equity:** Followed SAF/FM guidance of 5%.
- **Developer Preferred Return and Internal Rate of Return:** The new AF Financial Model allows for the user to include a preferred return and a split of any additional cash flows. Based on completed projects, used a 12% preferred return and then split anything after that: 70% to the project reinvestment account and 30% to the developer.
- **Limited Loan Guaranty:** A limited loan guaranty was included if the first mortgage was more than 65% of the total debt AND the installation's location required one (i.e. remote location).
- **Fire and Police Protection:** $3 per month per unit
- **Renter's Insurance:** $20 per month per unit

Privatization Feasibility Analyses

Life Cycle Cost Assumptions

- **Monthly Weighted Average BAH, Utilities and O&M Costs: Monthly Weighted Average BAH is calculated based on the end-state rank distributions, Utilities are estimated based on the same methodology used above with the exception of including the 10% tenant utility adjustment, and O&M Costs are calculated based on the same methodology as used above.**

- **Average New Unit, Renovation and Demolition Costs: Obtained from the financial model.**

- **Project Planning and Total Construction Inspection Costs: To reflect the additional Government costs involved with a privatization project, we have assumed $100,000 per 100 new/renovated units for construction inspection, which is then spread evenly over the development period.**

Privatization Feasibility Analyses

Life Cycle Cost Assumptions

- **Annual On-Base Impact Aid: Per unit costs where calculated using the *National Association of Federally Impacted Schools' Impact Aid Blue Book*.**
- **Drayage Cost: Assumed $1,000/unit and one third of the units turn over each year. Costs are the same for both privatization and identical MILCON.**
- **Manpower: Assumed $50,000/year per 100 units (based on historical cost data collected by the FHMP) for the MILCON alternative and 75% of the MILCON cost for Privatization.**
- **RPMC Identical to MILCON: Reflects RPMC cost for project scope based on grade and bedroom type. This information is included in the life cycle cost analysis.**
- **Discount Rate: Obtained from OMB Circular A94 – Appendix C.**

Privatization Feasibility Analyses

Life Cycle Cost Assumptions

- **Portfolio Management:** Per OSD and SAF/SMEA guidance. Estimated as a $50,000 transition cost (in the first year) and an annual cost of $187,000 during years 1 through 7, and $175,000 thereafter.

Questions?